

The Ph.D. Students of Ludwig von Mises

By John V. Peters (April 25, 2022)

An appreciation of any scholar is reflected in the accomplishments of his or her Ph.D. students and this proves to be a very useful way of assessing the role of Ludwig von Mises, especially during the 1920s when he sponsored most of his Ph.D. students at the University of Vienna where he taught from 1919 to 1934. Mises was 38 years old when he began this period of his life and left Vienna at age 53 for Geneva, Switzerland in order to flee from Naziism. At age 64 he came to New York City where private citizens sponsored his teaching position at New York University. He taught and held a seminar at NYU until 1969 when he retired at the age of 88. He died four years later in 1973 at age 94.

To place Mises in time and place, I will mention the books he published while in Vienna. Mises' first book was The Theory of Money and Credit, published in 1912, when he was 31 years of age. This was an extensive and thorough review of the history of ideas on the origin and role of money and credit. He published Nation, State and Economy in 1919, representing his "observations about the crisis in world history that we are living through," reflecting on the chaos of ideas, politics and economics following the First World War. Next came his thorough historical and ideational review book Socialism: An Economic and Sociological Analysis in 1922. This was followed

by his book Liberalismus in 1927, an exposition of the best of the liberal tradition of thought on society and the economy, treating these as world-embracing ideals. One of the most significant aspects of the liberal order he envisioned includes the free migration of people worldwide. Today's capitalist world supports only the free movement of money and goods. The European Union has moved the ball forward on this front by opening the free movement of people among member states. Finally, he published Epistemological Problems of Economics in 1933. Here he argued in favor of a literary and logical method in economics, perhaps goaded by the trends of his students and other economists who were determined to understand the workings of the economy in an empirical and numerical way. With the world crisis of WWI and then the Great Depression, the need for an empirical and quantitative understanding of the economy was paramount in his students' minds.

His Ph.D. students were Martha Braun (1921), Gottfried Haberler (1923), Fritz Machlup (1923), Oskar Morgenstern (1925) and Gerhard Tintner (1929). All went on to teach as empirical economists or econometricians, using mathematics to determine numerical economic relationships.

Martha Braun was triple cursed in Vienna, Austria at this time in terms of gaining an academic appointment because she was a woman, a Jew and a liberal. And she was known to be a part of the Mises circle, a fourth curse. She published a textbook

Governmental Economic Theory in German in 1929. She worked mostly as a journalist until she emigrated first to London for a year and then to the United States in 1939. She then anglicized her name from Martha Stephanie Braun nee Herrmann to Martha Steffy Browne. She was employed as an economic analyst by the U.S. State Department from 1944-1947. She served as a professor of economics at Brooklyn College from 1947 to 1969, receiving tenure in 1962. In retirement she continued to teach economics at the New York University School of Continuing Education until 1981. She lived in Manhattan and died at age 91 on March 2, 1990 at New York Hospital of heart failure.

Gottfried Haberler is known for his extensive empirical and econometric work on the business cycle as well as his work on the international monetary order and international trade. His 1937 book Prosperity and Depression was highly influential. His last book was The Liberal Economic Order (1993). He spent his career at Harvard University.

Fritz Machlup is most famous for his empirical investigations into the production and distribution of knowledge in the United States, published in 1962. His Ph.D. dissertation under Mises was Die Goldkernwahrung, a review of the gold-exchange standard of money management. The subtlety and depth of Machlup's thinking can be seen in his Essays in Economic Semantics (1963). He worked at four universities, ending his career at New York University.

Oskar Morgenstern is most famous for co-authoring The Theory of Games and Economic Behavior with the world-renowned mathematician John von Neumann in 1944. His book On the Accuracy of Economic Observations was published in 1950. Morgenstern worked at New York University but ended his career at Princeton University.

Gerhard Tintner became known as one of the foremost econometricians of his time, with extensive mathematical and statistical writings in search of a more empirical, quantitative and numerical economics. Tintner worked at the University of California and finished his career at Iowa State University.

This was the crop of Ph.D. students that Mises sent forth into the world during his Vienna years. All were independent thinkers who went on to make valuable contributions to economics, econometrics and economic education.

At New York University, Mises sponsored four Ph.D. students, Hans F. Sennholz (1955), Louis Spadaro (1955), Israel M. Kirzner (1957) and George Reisman (1964).

All of these men adopted Mises' fervent literary and logical methodology. With the exception of Kirzner, they were not independent thinkers and contributed nothing to the advancement of the economic discipline.

Hans F. Sennholz wrote no scholarly books or papers after completing his Ph.D. thesis on the European Union, How Can Europe Survive, published in 1955. He taught undergraduates

at Grove City College, Grove City, Pennsylvania, from 1956 until he retired in 1992 at the age of 70. At the behest of Mises when he began his studies at NYU, Sennholz was drafted as a translator for Eugene von Boehm-Bawerk's three volume German text Capital and Interest. Sennholz wrote innumerable short popular writings on a wide variety of economic issues of the day, reflecting Mises' conservative views on wealth and money and inflation and rejecting any government action to improve the lives of those below the pinnacle of the income and wealth pyramid. I was one of Sennholz's students and I can say that he was a well-organized and excellent lecturer who required no notes. He had outstanding speaking skills which made him a great lecturer and served him well away from the college on the speaking circuit and sometimes testifying to Congress. He wasn't particularly approachable or useful as a mentor or advisor but he was friendly and humorous in and out of the classroom as well as being serious about his lecturing.

Louis M. Spadaro, dean of the Fordham University Graduate School of Business Administration, taught economics, wrote Economics: An Introductory View (1969) and edited a hopeful book called New Directions in Austrian Economics. But Austrian economics hasn't found any new directions.

Israel Kirzner became a creditable professor at New York University. While adhering to Mises literary methodology, he wrote scholarly books on economic method and on competition and entrepreneurship, which won him awards.

Kirzner is also an ordained rabbi. His books include The Economic Point of View (1960), Market Theory and the Price System (1963), An Essay on Capital (1966), Competition and Entrepreneurship (1973), and others. His emphasis on the important economic role of entrepreneurs echo the views of Joseph Schumpeter and the even earlier views of the American economist and Chicago Ph.D. Minnie Thorp England in her empirical papers on the entrepreneurial role in business cycles which were published between 1912 to 1915.

George Reisman, who was a follower of Ayn Rand as much as of Mises, ended his teaching career at Pepperdine University. He was also drafted into translating one of Mises works, Epistemological Problems of Economics, into English. He authored the book The Government Against the Economy in 1979. He is best known as a champion of laissez-faire capitalism.

The Background of Economics as a Discipline

It may be useful to informally discuss the background and development of economics as a discipline.

The first economists used practical empirical knowledge as a basis to think more generally about broader economic circumstances, relationships and regularities. Adam Smith may be taken as an example. His practical observations of everyday life led him to broad generalizations about the economy.

Later economists often had business backgrounds and used their experience to develop categories and generalizations they then used to construct some overview of economic life and to address issues of the day, whether tariffs, wages for laborers, profits for capitalists or government monetary policies.

Gradually, economic generalizations took on the patina of laws of nature and a logical and largely literary corpus was built that more and more took on the appearance of a logical exercise.

Economic theory was born. This theory was qualitative in nature and was viewed by practitioners as a deductive system founded on basic truths of human behavior. Ludwig von Mises was fully in this mainstream of economic theory. But whereas most economists gave at least lip service to the real world of facts and figures, Mises adopted a precisely mathematical view of economic theory as founded on one or more axioms of human behavior with all the theoretical findings being deduced by logic from these axioms. Thus, like mathematics, economics was a purely deductive field whose conclusions were not testable by facts, figures or any empirical findings. This belief put Mises at odds with the trends of his time as the importance of well-founded empirical knowledge was at a premium from governments and businesses and people generally. Mises' adherence to a strictly literary theory of economics also put him at odds with the mathematical economists, who agreed with him on the nature of economic theory but pushed ahead to use any relevant mathematical tools to sharpen and extend their theory. Paul Samuelson became a leader among

mathematical economists with his 1947 book The Foundations of Economic Analysis. In contrast to the mathematical economists, the econometricians sought “to give empirical content to a priori reasoning in economics,” as Lawrence Klein wrote in his 1962 book Introduction to Econometrics. Earlier, in his 1952 book, Econometrics, Mises’ former Ph.D. student Gerhard Tintner wrote that econometrics is “an effort to achieve numerical results and to verify economic theorems.” Neither man had broken with the a priori nature of economics endorsed by Mises and all mainstream economists.

Just to illustrate the issues inherent in a priori qualitative economics, let me talk a little about the issue of government establishing minimum wage rates. Traditional qualitative economics, whether literary or mathematical, states that if wages rise, unemployment must result. And, on the basis of this belief, most economists have opposed the establishment of minimum wage rates. Seldom asked, however, was the question: Even if this theoretical economic proposition is true, what are the numerical values associating the amount of rise in wages with an amount of unemployment? Qualitative economic theory, literary or mathematical, cannot answer this question. It is one that econometrics could address by attaching numerical values to the relationship, assuming the relationship itself is true. However, over the course of many years of trying, empirical economists have not been able to establish the truth of the basic proposition, let alone provide numerical values to guide the public and policy-makers. At

present, we are left with the possibility that the theoretical relationship of minimum wage rates and unemployment does not exist. The relationship, if it exists at all, must be too small to measure. Although economists failed to point this out, the numerical relationship, if it exists at all, may be a vanishingly small number. Thus a 100% rise in the minimum wage may result in a 0.00001% rise in unemployment. This example demonstrates how far from reality economic theory can be in its qualitative assertions and how destructive of effective public policy a priori economic reasoning can be. This same line of criticism may be applied to virtually any qualitative statement of literary economics or any qualitative theorem of mathematical economics. Without numbers, it is all pretty much meaningless.

The general problem of economics as a discipline is that it still has not found a way to provide scientific knowledge of the empirical economic world in which we live. Economics is still in a state of categorizing, cataloging and theorizing. The literary and mathematical economists continue to spin out a priori qualitative theory. The econometricians have largely abandoned the search for useful numerical relationships using empirical data as advocated by Gerhard Tintner. Instead, they focus on the mathematics of statistical procedures. I found no empirical or numerical economic content in the standard text Guide to Econometrics (1979 and later editions) by Peter Kennedy. The macroeconomists have developed a priori models of the economy and used them to forecast future

conditions, without success. Belatedly, econometricians have begun to recognize the importance of time series analysis techniques developed by statisticians and electrical engineers. The use of various techniques to identify relationship models directly from time series data has centered around autoregressive integrated moving average (ARIMA) models and their equivalent state space engineering models identified by canonical correlation with a model size selected by the Akaike Information Criterion (AIC) or some variation of it. Whether these approaches will be successful remains uncertain. And relationships based on our available economic time series have often been shown to not be the best representation of the actual relationships present in the data. Principal component analysis, developed by Harold Hotelling in 1933, can show that some weighted combination of the data of the multiple time series examined gives a better representation of the relationships. These weighted combinations of existing data series often have no clear meaning in real economic terms. Our data collection into economic time series has fundamental problems in that we are not capturing all of the information that would help us establish valid relationships. Put another way, data driven model development is limited by the informational limitations of our existing time series data collection. Whether anything can be done about this is uncertain. Efforts are being made to make use of the major principal components and then find a way to translate the results back into the “real” variables of our time series data.

The weighted combinations of the data time series, however, seem more real than do the original data series themselves.

Back to Mises

I've strayed a bit from Mises. In his later years, at New York University, he became cranky and rather pig-headed. It seems probable that he was more open while in Vienna and more the scholar helping others to become scholars. Those who knew him at that time seem to remember him with affection.

Mises wrote in his 1940 unpublished Memoirs: "We are not sketching a plan for a new economics when we assert that economics is a deductive system derived from an a priori point of departure. Rather, we are demonstrating what today's economics is. It did not escape me, naturally, that there were also attempts to conduct economics as an experimental science. There is an economics association that adopted for its motto: 'Science is measurement'. With Menger, I will be happy to see this movement, richly endowed with financial support, run its full course. But it is not worthwhile to refute yet again the notion that in the sphere of human action measurements can be made in the same way they are made in physics. Economic statistics is a method of economic history, and not a method from which theoretical insight can be won."

Frederick Hayek, Haberler and Morgenstern as well as 80 others were invited in 1930 to be charter members of the new Econometric Society. In a 1977 memoir Hayek wrote: "Only after I returned from America in the summer of 1924 was I

admitted to that circle, which had been in existence for some time, and through which Mises's scholarly work in Vienna mainly exerted its influence. This 'Mises Seminar', as we all called the biweekly nightly discussions in his office, is described in detail in his memoirs. Mises though does not mention the hardly less important regular continuations of the official discussions that lasted long into the night at a Viennese coffeehouse. As he correctly describes, these were not instructional meetings, but discussions presided over by an older friend whose views were by no means shared by all members. Strictly speaking, only Fritz Machlup was originally Mises's student. As regards the others, of the regular members only Richard Strigl, Gottfried Haberler, Oskar Morgenstern, Lene Lieser, and Martha Stefanie Braun were specialists in economics. Ewald Schams and Leo Schönfeld, who belonged to the same highly gifted but early deceased intermediate generation as Richard Strigl, were, to my knowledge, never regular participants in the Mises Seminar. But sociologists like Alfred Schütz, philosophers like Felix Kaufmann and historians like Friedrich Engel-Janosi were equally active in the discussions, which frequently dealt with the problems of the methods of the social sciences, but rarely with special problems of economic theory (except those of the subjective theory of value). Questions of economic policy, however, were discussed often, and always from the perspective of the influence of different social philosophies." "If Carl Menger had not aged relatively early and Böhm Bawerk had not died so young, Mises

probably would have found support among them. But the only survivor of the older Austrian School was my revered teacher Friedrich von Wieser, and he was more a Fabian—proud, as he believed, to have provided a scientific justification for progressive income taxation with his development of the theory of marginal utility.” “Mises’s return to classical liberalism was not only a reaction to a dominating trend. He completely lacked the adaptability of his brilliant seminar fellow Josef Schumpeter, who always quickly accommodated current intellectual fashions, as well as Schumpeter’s joy in “épater le bourgeois” [shocking the middle classes]. In fact, it appeared to me as if these two most important representatives of the third generation of leading Austrian economists (one can hardly consider Schumpeter a member of the “Austrian School” in the narrower sense despite all mutual intellectual respect) both got on each other’s nerves.” “I must admit that I myself often initially did not think his [Mises] arguments to be completely convincing and only slowly learned that he was mostly right and that, after some reflection, a justification could be found that he had not made explicit. And today, considering the kind of battle that he had to lead, I also understand that he was driven to certain exaggerations, like that of the a priori character of economic theory, where I could not follow him.”

Hayek and Mises discredited themselves as the worldwide great depression took hold in 1930. Their common political theme of “Do nothing!” put a stamp on their disconnection from the real economy. But worse than this, intellectually, was

their failure to follow through on their own analysis. The problem, they said, was that the general interest rate was mismatched to the “natural interest rate,” whatever that may be, as credit is offered at interest rates lower than the natural rate. But given acceptance of this view, the natural next step is to recommend that action by governments and central banks or by large banks is needed to rebalance this mismatch. After all, Mises and Hayek blame governments and central banks for having created the mismatch. It only makes sense to recommend that governments and central banks monitor the difference between real and natural rates of interest and act early to rebalance them to avoid booms and busts. Instead, Mises and Hayek accept booms and busts as natural phenomena and recommend inaction as policy. Their recommendation to let the economy go bust, when their own analysis leads to a call for action, left both men fully discredited. Their laissez-faire socio-political views triumphed over the obvious implications of their own economic analysis. Whether their economic analysis has any merit, of course, is another matter. Neither man ever supplied any empirical support for their analysis.

After his Vienna years, Mises’ own writings contained nothing of interest to professional economists and his Vienna Ph.D. students carried the ball forward in directions that Mises found appalling. Mises continued to criticize qualitative mathematical economic theory but he failed to appreciate how his criticism applied with equal force to his own qualitative verbal economic

theory. Anything empirical or numerical he disdained as “historical” and therefore not of eternal significance. In this he was adopting, unacknowledged, an idea of eternal laws from physics. Mises regularly denigrated others who adopted any concepts from physics. On the other hand, he never stopped to appreciate that empirical and numerical economic relationships could be of enormous practical use to humanity, and if these relationships change over time, we should monitor them and record their changes. But then, economics in general is subject to the same criticism. The entire a priori, theoretical, qualitative ethos of the subject is a fundamental error. Any future useful economics must be empirical and numerical with testable relationships.

A lot of what passes for economics today has to do with overarching societal organizational principals, of decentralized capitalism and centralized socialism and everything in between. But here again the best studies on these subjects are historical and empirical, not a priori theories. Libertarian theoretical utopian fantasies are no more convincing than Marx’s utopian fantasies. Economists in general have not served human societies very well. Ecological economists are trying to find a better way and repair the damage done by their forebears. But there seems to be an inability to talk about the single biggest problem of all, human population numbers. At the time of Thomas Malthus, we know now, human population wasn’t the great problem he thought it was. But in 2022 we know it is a problem. The human impact on the planet is too great. Great

numbers of humans on the planet today cannot survive the changes coming our way. We need world government, open borders and a very limited number of human births for some period of time to rebalance the human impacts on the earth. We need an end to nations and an end to war. But, since the retreat of the last ice age, human social evolution has been too slow. We have not developed a common world human society that can recognize world issues and adopt common goals for the good of all humanity and for the good of all of the diverse life on the planet. This leaves the human future very uncertain.